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PUBLIC EMPLOYEES' RETIREMENT SYSTEM HANDBOOK

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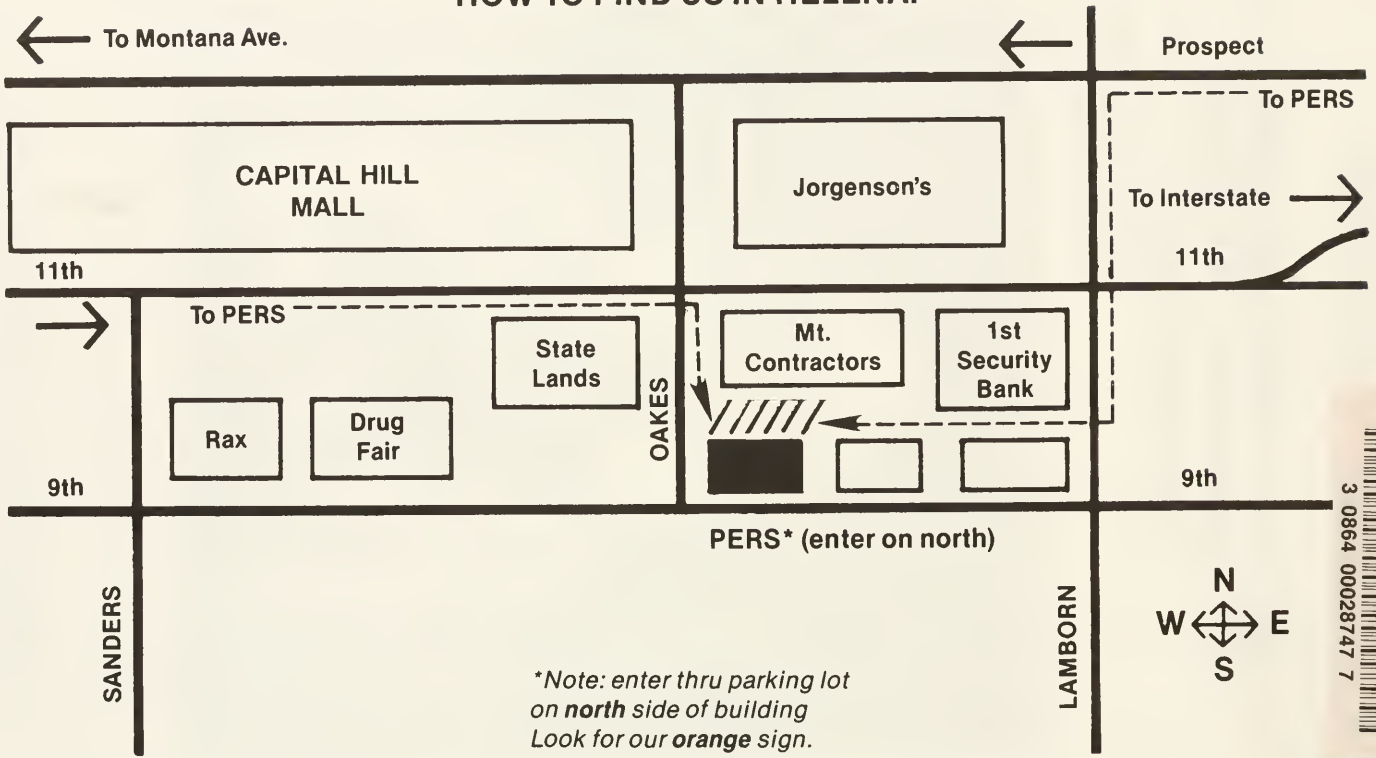

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DEPARTMENT OF ADMINISTRATION
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I. INTRODUCTION

The Public Employees' Retirement System (PERS) is a public pension system enacted by the Montana Legislature to provide retirement, disability and death benefits for general government employees. State and university system employees employed in positions which are not specifically covered by another retirement system are covered by PERS. Local government employees are covered under PERS by contractual agreements between their employers and the Public Employees' Retirement Board.

The PERS is administered by the six-member Public Employees' Retirement Board whose members are appointed by the Governor to serve staggered five-year terms. The Public Employees' Retirement Division (PERD) provides staff support to the Board in administering the day-to-day operations of the PERS. The Board of Investments is responsible for investing the pension trust funds.

PERS is a "defined benefit" retirement system, which means the benefits you receive are based upon years of service and final average salary rather than the amount of money you contribute and the interest which accrues to your account.

This handbook is intended to provide PERS members with a summary of information from the retirement statutes. Should any conflict exist between this publication and the retirement statutes, the statutes will always take precedence.

II. MEMBERSHIP

MANDATORY MEMBERSHIP. An individual accepting employment in a PERS-covered position must become a member of the PERS on the first day of employment. There are exceptions which will be discussed below.

MEMBERSHIP APPLICATION. Each employee in a PERS-covered position must complete a membership card upon initial employment. Employees in covered positions for whom PERS membership is optional may voluntarily elect membership in PERS by filling out and filing a membership card, but once membership is elected, the employee is subject to the same laws, rules and regulations as any other member and may not discontinue membership without terminating employment. The employer must forward the completed membership card to the (PERD) along with the monthly payroll report upon which the new member is first reported.

No benefit or refund will be paid to a member unless their membership card is on file with PERD. You are responsible for keeping the information on file with PERD current. You may update information, such as a name change or changes of primary and contingent beneficiaries by completing a new membership card and submitting it to PERD. Marriage, birth of a child, divorce, or death of a beneficiary are all reasons for submitting an updated membership card. (§ 19-2-801, MCA and ARM 2.43.402)

EMPLOYMENT OF PERS RETIREE IN PERS COVERED POSITION. Any PERS retiree may be employed in a PERS-covered position without becoming an "active" PERS member. However, the retiree may become an active member if they so wish. A PERS covered employer who employs a PERS retiree must report to PERD each month the total hours employed and the compensation received for those hours. While PERS retirees must also report their hours of employment in PERS-covered positions and the compensation received for those hours, their signature on the employer's report will suffice as the employee's report. See page 10 for additional information concerning re-employment of retirees. (§ 19-3-1106, MCA)

ELECTIVE (OPTIONAL) MEMBERSHIP. The following categories of employees are not required to become members of PERS, but may elect membership by filling out a PERS membership card and having their employer file it with the PERD:

- Elected officials,
- Direct appointees of the Governor,
- Employees of county hospitals and county rest homes in 6th and 7th class counties,
- Persons employed for 6 months or less by the Legislature or the Legislative Council to perform work related to the legislative session,
- The chief administrative officer of any city or county, and
- Employees scheduled to work less than 960 hours during the fiscal year (an employee must become a member on the day 960 hours is exceeded).

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Once a PERS member, membership continues until the member terminates PERS-covered employment and receives a refund of accumulated contributions. (§ 19-3-403 and 406, MCA)

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A member may not withdraw from PERS membership simply because they will work less than 960 hours during a fiscal year, or are elected to a new term of office, or later accept a position for which PERS membership is optional.

EXCLUDED FROM MEMBERSHIP. The following categories of employees may not become PERS members:

- Inmates of state institutions,
- Persons in state institutions principally for the purpose of training, but who receive compensation,
- Independent contractors (unless the written contract specifies the creation of an employer-employee relationship for the purpose of coverage under PERS),
- Persons who are members of and receiving credit for their current employment in any other retirement or pension plan(s) funded fully or partially by the U.S. government, state government, or political subdivisions (except persons also covered by a collectively-bargained pension plan qualified by the IRS). (Social Security coverage is not part of this exclusion),
- Court commissioners, elected officials or members appointed to any board or commission who serve the state or any contracting employer intermittently and are paid on a per diem basis, and
- Full-time students employed at and attending the same public elementary school, high school, vocational technical center or community college or any unit of the state university system. (A student who at a later date becomes a PERS member may qualify the time previously excluded.) (§ 19-3-403, MCA)

III. MEMBERSHIP SERVICE AND SERVICE CREDIT

MEMBERSHIP SERVICE. PERS members earn membership service during the months in which they work in PERS-covered employment and make contributions to the PERS. Membership service is used to determine eligibility for vesting, retirement and other benefits. In addition, membership service may be purchased by eligible members for various types of service. (PERS retirees are not eligible to purchase service.)

Your total PERS membership service may not exactly match your employment service calculated for purposes of granting longevity pay increases or for accelerating your annual leave accrual. The statutes and rules governing the computation of membership service under PERS are separate from those used for other employee benefits.

SERVICE CREDIT. Service credit is used to determine the amount of the retirement benefit you will receive. You accumulate 1 month service credit for each month in which your employer reports you were compensated for at least 160 hours of service. Members compensated for less than 160 hours in any month will receive proportional service credit.

(For example, if you were paid for 80 hours during a given month, you would earn 0.5 months of service credit, but for that same month you earn 1 month of membership service.) When your retirement benefit is calculated, your months of service credit will be converted to years. (ARM 2.43.406 - 409)

EFFECT OF PART-TIME SERVICE. If you retire with a part-time salary as your Final Average Salary (FAS), your actual part-time service credit will be adjusted on a proportional basis at the time of retirement so a double proration of your retirement benefits will not occur.

When you retire with a full-time salary (at least 160 hours per month in each of the highest 36 consecutive months) as your FAS, your actual service credits earned over the entire period of PERS service will be used to calculate your monthly retirement benefit.

STATEMENTS OF ACCOUNT. Service records and annual statements of account should reflect the actual service credits earned by each member. However, some service may have been inaccurately reported by employers or the records maintained by PERD may have been adjusted in the past to reflect full-time credit for part-time service. Any mistakes in service credited to a member's account will be corrected when they are noted (but at least by the time your retirement benefit is finalized) and will not bind the PERS to paying any benefit for which a member is not actually eligible. If you are concerned your annual statement incorrectly credits you with full-time service for periods of part-time service (or vice versa), please inform the PERD in writing.

QUESTIONS. If you have a question about the calculation of your service credits or the amount of your retirement benefit, please contact the PERD. **Official estimates of your retirement benefits may only be obtained from the PERD.**

IV. SERVICE PURCHASES

GENERAL INFORMATION. Qualified PERS members may elect to purchase the various types of service described below. Please contact the PERD for complete details about your eligibility and the steps required to purchase a specific type of service.

COST STATEMENT. To purchase service into PERS, you must first **write** to the PERD giving your full name (including any former names) and current address, Social Security number, the type of service you wish to purchase, and provide any documentation of the service you can obtain. The PERD will review the request and send you a cost statement for purchasing any service for which you are eligible.

The cost statement is only valid for 30 days. After 30 days, if you have neither paid the lump-sum cost nor initiated monthly withholding payments to purchase the service, the cost statement is no longer valid. You must contact the PERD to receive an updated cost statement which will either include additional interest or be based upon a "new" 12-month salary base, depending upon the statutory requirements in effect for the type of service you wish to purchase. **Official statements of your cost for purchasing service may only be obtained from the PERD.**

You may pay for a service purchase in one lump-sum payment or make monthly installment payments. Monthly installments are made by payroll deduction and are held in an additional contributions account until the service purchase is paid in full.

While members may purchase most types of service anytime prior to retirement, postponing purchases may increase the total cost of the purchase because of additional interest which may be included or higher salaries in effect later in a member's career.

In general, service qualified into PERS may not be credited to any other retirement system. All service purchases must be completed prior to retirement. If a member is making installment payments, failure to make a regular monthly payment during any month forfeits the member's right to make any further installment payments. The member's additional contributions plus interest will be refunded at the member's request.

REFUNDED SERVICE. PERS members who received a refund of their accumulated contributions at sometime in the past may purchase this "refunded service." The cost of this service is the amount of the previous refund plus the interest which would have been credited to the account had the member left the accumulated contributions on deposit with the PERS. (§ 19-2-603, MCA)

RETROACTIVE SERVICE. A member who has previous employment with a PERS-covered employer which was not credited into PERS at the time may elect to purchase all or a portion of that employment. (§ 19-3-505, MCA)

OTHER SERVICE. In addition to the above service purchases, PERS members may be eligible to purchase service which was refunded from another Montana statewide retirement system or other full-time service with a Montana public employer. Contact the PERD in writing for eligibility and cost information. (Title 19, Chapter 3, Section 5, MCA)

DISABILITY ABSENCE. Time during which a member is absent from service due to a work-related injury or illness is considered membership service. To qualify, the illness or injury must be determined to be work-

related within 1 year after the end of the absence and the absence must not exceed 5 years. A member will lose the right to contribute for such an absence if the member withdraws their accumulated contributions during the absence. (§ 19-3-504, MCA).

ADDITIONAL SERVICE ("1-FOR-5") PURCHASE. Members **who joined the PERS prior to July 1, 1989** may purchase 1 year of additional service credit for each 5 years of PERS membership service, up to a maximum of 5 years additional service credit. Members eligible to purchase 1 year may purchase less than a full year of service credit.

Additional service credit is not membership service and cannot be used to make a member eligible to retire or to become eligible to purchase other types of service. This service credit will be used to calculate your retirement benefit and can reduce or eliminate an early retirement reduction in the monthly benefit. (Additional service credit will never show under your membership service totals; it will be added to your service credit only when your retirement benefit is calculated.)

MILITARY SERVICE. Members with at least 10 years of membership service may purchase up to 5 years of active military service (for which they are not eligible to receive a separate military retirement benefit). A member may purchase 1 year of military service for each year of PERS membership service in excess of 10 years (i.e., a member with 11 years and 7 months of membership service may purchase up to 1 year and 7 months of military service).

OUT-OF-STATE/FEDERAL SERVICE. Vested members who received a refund of contributions for service covered by another state, local, or federal government retirement system may purchase up to 5 years of such service into the PERS. Members may also purchase service credit for employment with another state or local government employer prior to that employer's adoption of a public retirement system.

This service may not be used to qualify a member to purchase military service and may only be used to calculate a member's retirement benefit if the member's last 5 years of service credit were under the PERS. (§ 19-3-512, MCA)

LIMITATION ON CERTAIN SERVICE PURCHASES. Since January 1, 1990, members may only purchase a combined total of 5 years of additional, military, and out-of-state/federal service credit. For example, if you are eligible to purchase 4 years of military, 3 years of out-of-state/federal and 3 years of additional service, you may only purchase a combined total of 5 years.

Any service purchases completed prior to January 1, 1990, are not included in the 5 year limitation. For example, a member eligible to purchase 15 years of service in the 3 categories on July 1, 1989 and who completed purchasing 4 years by January 1, 1990, would be limited to purchasing only 5 of the remaining 11 years after January 1,1990. (§ 19-3-513, MCA)

V. CONTRIBUTIONS

MEMBER CONTRIBUTIONS. Mandatory contributions are withheld from the gross pay of all PERS members. Your contribution rate is currently 6.7% of gross pay. Contributions are credited to your individual PERS account. (§ 19-3-315, MCA)

INTEREST ON MEMBER ACCOUNTS. Each month interest is posted to individual PERS accounts. Each year the Public Employees' Retirement Board sets the annual interest rate based on current trends and interest rates earned by U.S. Treasury Notes. The current interest rate is 4%. **The interest credited to a member's account does not affect the amount of the member's ultimate benefit**; interest is only distributed to persons taking a refund of their accumulated contributions in lieu of any benefit.

MEMBER CONTRIBUTIONS ARE TAX-DEFERRED. Since 1985, your PERS contributions have been tax-deferred (which means you do not pay state or federal income taxes on your contributions). However, state and federal taxes will be due and must be paid when a member receives the tax deferred contributions and interest as a refund or a benefit. While additional contributions for service purchases are not tax-deferred, interest which accrues on them is tax deferred.

EMPLOYER CONTRIBUTIONS. Each month employers contribute a percentage of their total covered payroll to the pension trust fund. Employer contribution rates are 6.7% of total salaries and provide "pooled" funds for retirement, disability and death benefits and are not refundable. (§ 19-3-316, MCA)

REFUND OF MEMBER CONTRIBUTIONS. Members who terminate PERS-covered employment may leave their contributions in the PERS and continue to earn interest, or they may elect to withdraw their accumulated contributions (contributions plus accrued interest). A request for refund must be made on an application furnished by your employer who will complete and forward it to PERD.

Refunds cannot be processed until a terminating member's refund application and final payroll information are received from the employer.

Depending upon the employer's reporting dates, this process may require up to 8 weeks from the date of an employee's final paycheck.

If the processing time of the refund is important to you, please contact the PERD before you terminate to discuss payroll processing dates. If the last day you plan to work extends into a new pay period, you may receive your refund 2 to 4 weeks later than if you terminated sooner. If the member is reemployed in a PERS covered position during the refund processing period, the refund application will be cancelled.

Inactive PERS members who have been terminated from covered employment for at least 3 months should contact the PERD directly to apply for a refund of their accumulated contributions.

Tax-deferred portions of refunds are subject to state and federal taxes and may be subject to an additional 10% federal tax penalty for early withdrawal. Please see Section XII on Taxes for further information.

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A person ceases to be a member upon receipt of a refund and no longer has any right to any form of benefit from the PERS.

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REINSTATEMENT TO PERS MEMBERSHIP. A former member who is subsequently employed in a PERS-covered position will be reinstated to PERS membership, but without credit for any previously refunded service. A new membership card must be filed complete with designation of beneficiary.

ADDITIONAL CONTRIBUTIONS. Members may make additional contributions to the PERS only for the purpose of purchasing service under a service purchase contract (see "Service Purchases" on page 4). Additional contributions are not tax-deferred and will not reduce a member's state or federal tax liability. Interest is credited at the same rate and manner as on regular contributions accounts; all interest is tax-deferred.

VI. VESTING

VESTING. You become vested when you complete 5 years of membership service in PERS. Being vested means you are guaranteed to receive retirement benefits provided by the PERS after you reach the minimum age requirement. After vesting, you may terminate covered employment and may apply for monthly retirement benefits at any point after you reach age 50, provided you leave your contributions on deposit with the PERS.

An inactive vested member is eligible to make monthly payments to purchase service for which he or she was eligible when PERS-covered employment was terminated. (§ 19-3-401, MCA)

If you are vested and terminate covered employment after age 50 (or 25 years of service) but elect to delay your retirement benefits until a later date, you may be eligible to receive continued coverage under your former employer's group health plan on a self-pay basis. A subsequent withdrawal of your PERS contributions and interest may affect those continuation rights. Please contact your employer's personnel office for full information about your health insurance continuation rights.

You may voluntarily give up your vested right to retirement benefits by terminating PERS employment and withdrawing your accumulated contributions. **Once you have withdrawn your contributions, you are no longer a member and lose any rights to any future benefits from the PERS.** (Title 19, Chapter 3, Part 9, MCA and ARM 2.43.406)

If you terminate PERS-covered employment prior to vesting and elect to leave your PERS contributions on deposit, you may not continue to purchase service nor will you be eligible for a retirement benefit at a later date. You will be eligible to receive a refund of your accumulated contributions (interest will continue to accrue until the date your contributions are refunded).

VII. SERVICE RETIREMENT

GENERAL PROVISIONS. The retirement benefit you will receive is payable to you for life (or to your contingent annuitant for life if you select options 2 or 3). Your benefit will not be "offset" by amounts you may also receive under a separate retirement program such as Social Security.

NORMAL SERVICE RETIREMENT. You are eligible for normal service retirement benefits when you meet any **one** of the following criteria:

- Age 60, with at least 5 years membership service, or
- Age 65 (while in service), regardless of the number of years of membership service, or
- 30 years of membership service, regardless of age

EARLY SERVICE RETIREMENT. If you are not eligible for normal service retirement, you may elect an actuarially reduced early service retirement if you meet **either** of the following criteria:

- Age 50, with at least 5 years membership service, or
- 25 years of membership service, regardless of age

Early service retirement benefits are reduced by a factor which depends upon the number of years required for you to either attain age 60 or accumulate 30 years of membership service, whichever would result in the larger benefit for you. (See Table II on page 24.) (§ 19-3-902 and 19-3-906, MCA)

DEFINED BENEFIT FORMULA. The basic formula for a monthly service retirement benefit in PERS is:

1/56 X Yrs. of Service Credit X Final Average Salary

Final Average Salary (FAS) is the average of your highest consecutive 36 months salary.

This formula will be modified if you receive an early service retirement or survivorship benefit. The retirement option you select may further modify the formula. The following sections discuss these benefits in detail.

MONEY PURCHASE FORMULA. For a few members - those who retire long after age 60 or after an extended period as an inactive member - the money purchase formula may provide a higher benefit than the defined benefit formula. The money purchase benefit is an actuarially computed annuity which provides a monthly payment based on your age and a sum equal to double your accumulated regular contributions (does not include amounts paid for additional or military service, or any employer's share of a service purchase paid by the member). Each member's potential benefit will be calculated using both the defined benefit and the money purchase formulas. The member's benefit will be the larger of the two calculations.

PERS-COVERED EMPLOYMENT AFTER RETIREMENT. A PERS retiree may return to employment in a PERS-covered position for up to 600 hours during any calendar year without a reduction of benefits. The retiree's benefit will be reduced $1 for each $1 earned from PERS-covered employment which exceeds the 600 hour limit during the calendar year. Retirees age 65 and older will be subject to **either** the 600 hour limitation **or** may earn compensation equal to no more than 1/2 their annual PERS retirement benefit, whichever provides the higher earning limit. In either case, the temporary benefit reduction will be $1 for each $1 earned over the applicable limit.

A retiree receiving a disability benefit must become an active PERS member immediately upon being employed in any PERS-covered position.

Most positions with the state, university system, local governments and school districts are covered by PERS. If unsure, retirees should ask potential employers if the position is covered by PERS prior to going to work.

All compensation earned and the number of hours for which compensated in a PERS-covered position must be reported to PERD on a monthly basis.

RETIREMENT INCENTIVE PROGRAM (RIP). Members who retired during the RIP window and received the retirement incentive will forfeit the retirement incentive if they are employed in any position for a period of 600 hours or more by the same jurisdiction from which they retired. The benefit of a RIP retiree who forfeits the incentive will be recalculated without using the additional years of service credit provided by the RIP. In addition to forfeiting the incentive, the benefit of a RIP retiree will also be reduced as discussed in the previous section. **The restriction applies to RIP retirees employed in any position by the same jurisdiction from which they retired, regardless of whether or not the position is covered by PERS.** A RIP retiree who returns to any type of employment (including a contract for services) within the same jurisdiction, must notify the PERD within 1 week of employment.

All agencies of the state and all units of the university system are considered one and the same jurisdiction, the State of Montana. Each individual local government unit with a separate contract for PERS coverage is considered a separate jurisdiction.

INDEPENDENT CONTRACTORS. A retired member may work without limitation under an independent contract, as long as the contract meets the test for independence. An independent contractor is an individual engaged in an independently established trade, occupation, profession, or business and is at all times under contract and, in fact, free from control or direction over the performance of the services. Factors to be considered in determining independence include all of the following:

- the contractor exercises control of the means by which the work is accomplished,
- the method of payment (payment based on hours indicates employment rather than independence),
- furnishing of equipment (contractor furnished equipment indicates independence), and
- whether the employer has the right to fire the contractor (indicates employment rather than independence).

A contract which fails to meet any of the above tests for independence is considered employment and is subject to the RIP restrictions.

VIII. BENEFIT PAYMENT OPTIONS

SELECTION OF OPTION. Retiring members must select a benefit payment option prior to the payment of their first monthly benefit. There are currently 4 benefit options defined in PERS. If you choose an option which provides a continuing benefit to another person after your passing, that person becomes your "contingent annuitant".

Option 1 is the largest monthly amount which you may choose. It is the benefit computed by formula (including any early retirement reductions) and is payable to the retired member for life. Upon the retiree's death, the designated beneficiary will receive the balance, if any, of accumulated contributions credited to the retiree's account at retirement less the total benefits received by the retiree. All monthly benefit payments end when the retiree dies.

Option 2 pays a smaller monthly amount for as long as the retiree lives and, upon the retiree's death, continues to pay the same amount to the contingent annuitant. The Option 2 benefit is computed by multiplying the Option 1 benefit by the Option 2 factor (found in Table III on page 25). The Option 2 factor is based upon the difference in age between the retiree and the contingent annuitant.

Option 3 pays a larger monthly amount than Option 2, but less than Option 1, for as long as the retiree lives. Upon the retiree's death, the contingent annuitant will receive 1/2 the monthly benefit the retiree received at the time of death. The Option 3 factor is also based upon the difference in ages and the Option 3 benefit is computed by multiplying the Option 1 benefit by the Option 3 factor (found in Table III on page 25).

Option 4 pays the retiree a monthly benefit for as long as the retiree lives. If the retiree dies prior to receiving benefits for a "certain" or guaranteed period of time, the monthly benefit will continue to the contingent annuitant(s) for the remainder of the guaranteed time period and will then cease. There are two sub-options for this benefit:

- **Life Annuity, 10-year period certain. (This benefit is available only to retirees who are 75 years of age or younger at retirement.)** This option provides a monthly benefit equal to 97.40% of the Option 1 retirement amount. **This benefit will be paid to the retiree for life.** If the retiree dies before the 10-year period has elapsed, the contingent annuitant(s) will be paid the same monthly benefit for the balance of the 10-year period. The 10-year period begins on the date of retirement and benefits will cease to be paid to any contingent annuitant at the end of the period.

If the original contingent annuitant(s) dies, another may be designated without requiring any change to the monthly benefit. Contingent annuitants receiving the Option 4 benefit may, in turn, designate their own contingent annuitant.

- **Life Annuity, 20-year period certain. (This benefit is available only to retirees 65 years of age or younger at retirement.)** The monthly benefit will be equal to 91.48% of the Option 1 retirement amount. **This benefit will be paid to the retiree for life.** If the retiree dies before the 20-year period has elapsed, the contingent annuitant(s) will be paid the same monthly benefit for the balance of the 20-year period. Benefits will cease to be paid to any contingent annuitant at the end of the 20-year period which begins on the retirement date. Contingent annuitants may be designated in the same manner and have the same rights as described for the 10-year period certain annuity, except those rights extend for 20 years.

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IF MARRIED, YOUR SPOUSE MUST WITNESS YOUR SELECTION OF A BENEFIT PAYMENT OPTION AND SIGN YOUR RETIREMENT APPLICATION TO SHOW THEY ARE AWARE OF THEIR RIGHTS (IF ANY) TO CONTINUING BENEFITS AFTER YOUR DEATH.

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CHANGE OF OPTIONS OR DESIGNATED BENEFICIARY AFTER RETIREMENT. For members with payment Option 2, 3, or 4, the contingent annuitant may be changed, and/or a new payment option selected, only in the following circumstances:

- the original contingent annuitant dies, **or**
- the member receives a divorce from the original contingent annuitant who is in normal good health and was not granted the right to receive the optional retirement benefit as part of the divorce settlement or Family Law Order.

A retiree must file a **written application** to designate a different contingent annuitant or select a different payment option. Please contact the PERD for an estimate of the new benefit and an application form for converting benefit payment options. Option 1 benefit payments may not be changed. (§ 19-3-1501, MCA)

POST-RETIREMENT ADJUSTMENTS. Post-retirement adjustments will be paid to eligible benefit recipients whenever the actual investment earnings of the pension trust fund exceed the actuarially required investment yield (after administrative and investment expenses are paid). Each annual adjustment is based on service credits, age of the benefit

recipient, and payment option, and will be a **permanent** increase to the monthly benefit payment.

Benefit recipients who have received a benefit for at least 2 years as of June 30 of the year the adjustment is made are eligible for this annual adjustment. (§ 19-3-1601 through 19-3-1603, MCA)

IX. SAMPLE RETIREMENT BENEFIT CALCULATIONS

SERVICE RETIREMENT

Wilma Montana, Age: 62
Service Credits: . . . . . 21 Years
Final Average Salary: . . . . . $1,500/month (full-time salary)
Accumulated contributions at retirement: $9,796
Contingent annuitant's age: 63

Option 1 Formula: 1/56 X Service Credit X FAS

1/56 X 21 X $1,500 = **$562.50/month**

Under Payment Option 1, Wilma will receive a benefit of $562.50 each month for the remainder of her life. Upon her death, if the total benefits paid to Wilma are less than $9,796, the balance will be paid to her designated beneficiary in a lump-sum.

Option 2 Formula: Option 1 Amount X Option 2 Factor

$562.50 X .8858 = **$498.26/month**

If Wilma elects Payment Option 2, she will receive a benefit of $498.26 each month for the remainder of her life. Upon her death, the same amount will be paid, for life, to her contingent annuitant.

Option 3 Formula: Option 1 Amount X Option 3 Factor

$562.50 X .9395 = **$528.47/month**

Payment Option 3 will provide Wilma a benefit of $528.47 each month for the remainder of her life. Upon Wilma's death, her contingent annuitant will receive, for life, 1/2 Wilma's benefit payment.

Option 4 Formulas:
10-Year certain: Option 1 Amount X 0.9740

$562.50 X .9740 = **$547.88/month**

20-Year certain: Option 1 Amount X 0.9148

$562.50 X .9148 = **$514.58/month**

If Wilma chooses the 10-year certain payment option, she will be paid $547.88/month, for life. If she dies prior to receiving this benefit for at least 10 years, Wilma's contingent annuitant(s) will receive the same benefit for the remainder of the 10-year period.

If Wilma chooses the 20-year certain payment option, she will be paid $514.58/month, for life. If she dies prior to the end of the 20-year period, Wilma's contingent annuitant will receive the same benefit for the remainder of the 20-year period.

The period for the 10- or 20-year certain benefit begins the day the member retires.

EARLY SERVICE RETIREMENT.

Fred Montana, Age: 55
Service Credits: . . . . . 21 Years
Final Average Salary: . . . . . $1,500/month (full-time salary)
Accumulated contributions at retirement: $8,987
Contingent Annuitant's age: 53

Option 1 Formula:
1/56 X Service Credit X FAS X Early Retirement Factor

1/56 X 21 X $1,500 X .70 = **$393.75/month**

Under Payment Option 1, Fred will receive a benefit of $393.75 each month for the remainder of his life. Upon his death, if Fred has not received benefits at least equal to $8,987, any balance will be paid in a lump-sum payment to his designated beneficiary.

Option 2 Formula: Option 1 Amount X Option 2 Factor

$393.75 X .8713 = **$343.07/month**

Payment Option 2 will provide Fred a benefit of $343.07 per month for the rest of his life. Upon his death, Fred's contingent annuitant will receive the same monthly benefit, for life.

Option 3 Formula: Option 1 Amount X Option 3 Factor

$393.75 X .9312 = **$366.66/month**

Under Payment Option 3, a benefit of $366.66 per month will be paid to Fred for the remainder of his life. Upon Fred's death, his contingent annuitant will receive 1/2 the amount Fred received, for life.

Option 4 Formula:

10-Year certain: Option 1 Amount X .9740

$393.75 X .9740 = **$383.51/month**

20-Year certain: Option 1 Amount X .9148

$393.75 X .9148 = **$360.20/month**

Under the 10-year certain payment option, Fred will be paid $383.51 per month for the remainder of his life. If Fred dies prior to receiving this benefit for at least 10 years, his contingent annuitant(s) will continue to receive the same benefit for the remainder of the 10-year period.

Under the 20-year certain payment option, Fred's monthly benefit will be $360.20 per month for the remainder of his life. If he dies prior to receiving benefits for the 20-year period, Fred's contingent annuitant(s) will continue to receive the same monthly benefit for the remainder of the 20-year period.

The time period for the 10- or 20-year certain benefit begins the day the member retires.

X. DISABILITY RETIREMENT

ELIGIBILITY. A member with at least 5 years of membership service is eligible for disability retirement if the member suffers a permanent and total disability which prevents the member from performing the essential functions of the member's current position. The disability need not be work-related, but must occur while the member is employed in a PERS-covered position.

Once a disability retirement is granted by the Board, benefits will become effective the day following the member's termination from PERS-covered employment. A member terminating PERS-covered employment prior to applying for a disability benefit is not eligible for a disability retirement benefit unless the member became disabled while employed in a PERS covered position and the member has been continuously disabled since terminating. (§ 19-3-1001 and 1002, MCA)

AMOUNT OF DISABILITY BENEFIT. A disabled member will receive a monthly benefit equal to:

1/56 x Service Credits x Final Average Salary

This is the same formula used to calculate the service retirement benefit; however, **early retirement factors are not be used to reduce the benefit of a member under age 60**. The disability retiree may elect any of the 4 benefit payment options available to service retirees (please refer to Chapter VIII).

Members who joined the PERS prior to February 24, 1991, and did not elect to be covered under the new disability provisions, should contact the PERD to determine their eligibility for disability retirement and to receive an estimate of the monthly benefit.

ON-GOING DISABILITY REVIEW. Disability retirees are subject to periodic review to determine if the retiree's medical condition qualifies the member for continued disability retirement status. (§ 19-3-1015, MCA)

While disability retirees may engage in gainful employment (including self-employment) in positions not covered by the PERS, their disability benefits are subject to offset by such earnings. A disability retiree's benefit will be reduced when earnings during any month, plus the disability retirement benefit, are greater than the monthly compensation the retiree earned at retirement. The benefit will be reduced $1 for every $1 earned over the limit. After receiving a disability benefit for at least 36 consecutive months, the retiree may request the limit be adjusted by an inflationary factor. (§ 19-3-1103, MCA)

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The monthly earnings of all disability retirees will be reviewed annually. Disability retirees must report their annual earnings on forms provided by the PERD.

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CANCELLATION OF DISABILITY RETIREMENT BENEFIT. The Board will cancel disability retirement benefits when:

- the member is no longer totally disabled and can return to his or her former employment,
- the member is employed in any PERS-covered position, or
- the retiree refuses to submit the results of a current medical exam for review.

CONVERSION OF DISABILITY RETIREMENT TO SERVICE RETIREMENT. Any disability retiree age 60 or older may petition the Board to covert a disability retirement to a service retirement benefit without changing the amount of the monthly benefit. Converting to a service retirement will eliminate restriction on outside earnings, but will also eliminate provisions guaranteeing return to prior employment. (Reemployment in a PERS-covered position after conversion will be limited as for all service retirees.)

ADJUSTMENTS TO BENEFITS. Disability retirees are eligible for the periodic post-retirement adjustments described on page 13.

For complete details about disability retirement benefits and the application process, please contact the PERD.

XI. DEATH BENEFITS/PAYMENTS

LUMP-SUM PAYMENT. The designated beneficiary is eligible to receive a lump-sum death payment, if the member dies in any of the following situations:

- while in active service,
- within 6 months after terminating service but prior to receiving a retirement benefit,
- while a recipient of a disability benefit if such benefit was in effect less than 6 months,
- while disabled, provided the member was continuously disabled since termination of service and not receiving a disability retirement benefit, or
- after retirement and within 30 days of electing an option 2, 3 or 4 retirement benefit. (The election is void and the death is considered that of a member before retirement.)

ANNUITY PAYMENT. The designated beneficiary eligible to receive a lump-sum death payment may elect, by written request, to receive the payment in the form of a monthly annuity. Such monthly annuity payments are <u>not</u> benefits and are <u>not</u> subject to increases that may be granted to benefits.

MONTHLY SURVIVORSHIP BENEFIT. The designated beneficiary of a vested member (at least 5 years of membership service) may request, in writing, a monthly survivorship benefit in lieu of the lump-sum death payment. The application for survivorship benefits must be submitted to PERD within 90 days from when the beneficiary was notified of eligibility for the lump-sum death payment.

The designated beneficiary of a vested member, who has been terminated from covered employment for more than 6 months, is not eligible for a lump-sum death payment or a survivorship benefit. In such cases the beneficiary is eligible for only a lump-sum refund of the member's accumulated contributions. (§ 19-3-1201, MCA)

ADVISE YOUR DESIGNATED BENEFICIARY TO CONTACT THE PERD FOR COMPLETE DETAILS CONCERNING BENEFIT OPTIONS IN THE EVENT OF YOUR DEATH.

DESIGNATION OF BENEFICIARY. Your designated beneficiary may be any living person you select, a charitable organization, or a trust. You must make a written designation of your beneficiary on a PERS membership card and file the card with the PERD. You may designate a different beneficiary any time prior to retirement by filing a new membership card. (§ 19-3-1301, MCA)

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PLEASE! KEEP YOUR DESIGNATION OF BENEFICIARY CURRENT AND CORRECT. YOU MAY ONLY CHANGE YOUR BENEFICIARY BY FILING A NEW MEMBERSHIP CARD.

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XII. TAXES

RETIREMENT BENEFIT. A portion of your monthly retirement benefit will be subject to federal and state income taxes. You must pay taxes on the portion of your benefit which was not taxed during your working career.

TAX INFORMATION STATEMENTS. Each year PERD will send a distributions form (Federal Form 1099R) to retirees and other benefit recipients. The 1099R will indicate the gross taxable amount received by the benefit recipient during the preceding calendar year and any state or federal taxes withheld during the year. Withholding rates are based upon the current federal and state tax laws in effect.

Since tax treatments of retirement benefits are subject to frequent change, please contact a tax professional for specific, up-to-date information about state and federal taxes which may be due on your benefits.

REFUNDS. The tax-deferred portion of a refund (your tax-deferred contributions and all interest) is subject to state and federal taxes and may be subject to an additional 10% federal tax penalty for early withdrawal. Terminating members may continue to defer taxes on

refunds by a making a qualified "roll-over" of the taxable portion into an IRA (or other qualified plan) within 60 days of the refund.

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If PERD pays the refund directly to an IRA or other qualified plan, no federal withholding will be required; if payment is made to you, PERD must withhold 20% for federal taxes and you may also be required to pay an additional penalty of 10% for early withdrawal.

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A distributions form (Federal Form 1099R) will be provided with the refund and will list the gross distribution, the taxable portion, and any federal or state taxes withheld from the refund.

XIII. ASSIGNMENT OF BENEFITS

Your retirement benefit is NOT Subject to ERISA (a federal law governing private pension benefits) and may not be assigned to another person through a "Qualified Domestic Relations Order" (QDRO).

Your PERS benefits may be assigned in very limited circumstances, including a family law order (FLO).

A FLO must be a judgement, decree or order of a Montana court and may transfer all or a portion of a participant's payment rights to an alternate payee as limited by § 19-2-907, MCA.

FAMILY LAW ORDERS (FLO). A FLO may require all or a portion of a participant's retirement benefit or refund be paid to another person (an alternate payee). A Montana court may issue a FLO for child support, parental support, spousal maintenance, or marital property rights. The FLO may order a specific fixed amount or a percentage of the total benefit or refund to be paid to an alternate payee. Further, it may require a retiree to elect a specific retirement option and/or designate a specific contingent annuitant or beneficiary.

However, a FLO may not require payment of any type of benefit not available to a member, or an amount or duration of payment greater than otherwise payable.

This means a FLO cannot require any payments to be made in advance of the member's actual retirement or withdrawal from PERS, nor may it provide for payment of any amounts to an alternate payee which are greater than amounts payable to the participant. (§ 19-2-907, MCA)

For specific information, including copies of the statutes, rules, and FLO checklist, please write or call the PERD.

XIV. FURTHER INFORMATION

Members desiring benefit estimates, cost statements for service purchases, or to file applications for service retirement or disability benefits should contact the PERD. Designated beneficiaries should be instructed to contact us in case of a member's death.

You are invited to call or visit the PERD in Helena (Monday through Friday, 8 am to 5 pm). An appointment is not necessary for general questions; however, to discuss benefit estimates or cost statements, you should make an appointment at least 7 days in advance, so we may obtain and prepare the necessary information prior to your arrival.

For your protection, you should **write** any question(s) requesting **specific information** about retirement options or credited service and the PERD will provide you a **specific written response**.

TABLE I. NORMAL SERVICE RETIREMENT BENEFITS

Option 1 Monthly Benefits*

Disability Retirement Benefits**

(Age 60 and over, **OR** at least 30 years membership service)

SERVICE CREDIT YEARS	FINAL AVERAGE SALARY (FAS)***										
	$1,000	$1,100	$1,200	$1,300	$1,400	$1,500	$1,600	$1,700	$1,800	$1,900	$2,000
5	89	98	107	116	125	134	143	152	161	170	179
6	107	118	129	139	150	161	171	182	193	204	214
7	125	138	150	163	175	188	200	213	225	238	250
8	143	157	171	186	200	214	229	243	257	271	286
9	161	177	193	209	225	241	257	273	289	305	321
10	179	196	214	232	250	268	286	304	321	339	357
11	196	216	236	255	275	295	314	334	354	373	393
12	214	236	257	279	300	321	343	364	386	407	429
13	232	255	279	302	325	348	371	395	418	441	464
14	250	275	300	325	350	375	400	425	450	475	500
15	268	295	321	348	375	402	429	455	482	509	536
16	286	314	343	371	400	429	457	486	514	543	571
17	304	334	364	395	425	455	486	516	546	577	607
18	321	354	386	418	450	482	514	546	579	611	643
19	339	373	407	441	475	509	543	577	611	645	679

20	357	393	429	464	500	536	571	607	643	679	714
21	375	413	450	488	525	563	600	638	675	713	750
22	393	432	471	511	550	589	629	668	707	746	786
23	411	452	493	534	575	616	657	698	739	780	821
24	429	471	514	557	600	643	686	729	771	814	857
25	446	491	536	580	625	670	714	759	804	848	893
26	464	511	557	604	650	696	743	789	836	882	929
27	482	530	579	627	675	723	771	820	868	916	964
28	500	550	600	650	700	750	800	850	900	950	1,000
29	518	570	621	673	725	777	829	880	932	984	1,036
30	536	589	643	696	750	804	857	911	964	1,018	1,071
31	554	609	664	720	775	830	886	941	996	1,052	1,107
32	571	629	686	743	800	857	914	971	1,029	1,086	1,143
33	589	648	707	766	825	884	943	1,002	1,061	1,120	1,179
34	607	668	729	789	850	911	971	1,032	1,093	1,154	1,214
35	625	688	750	813	875	938	1,000	1,063	1,125	1,188	1,250

* Rounded to the nearest whole dollar.

** Members not electing "new" disability benefits receive 90% of this amount.

*** Averaged over the highest consecutive 36 months.

Note: If your FAS is not shown on this chart, you can compute your estimated benefit by adding 2 column amounts together (e.g., if your FAS is $2,500 and you have 20 years of service, $1,200 + $1,300 = $2,500, so add $429 + $464 to get your benefit of $893/month.)

TABLE II. EARLY RETIREMENT FACTORS

If you are not eligible for normal service retirement, but are either at least age 50 with 5 or more years of membership service, or have at least 25 years of membership service, you are eligible for early service retirement. To calculate the amount of your Option 1 early service retirement benefit, find the factor which applies to you from the table below and multiply the Option 1 service retirement benefit by the factor. If you are eligible for early retirement in **both** the age and service categories, use the one factor which will provide the **larger** benefit.

AGE	EARLY RETIREMENT FACTOR (ERF)	YEARS OF SERVICE CREDIT
59	0.940	29
58	0.880	28
57	0.820	27
56	0.760	26
55	0.700	25
54	0.664	**Members under age 50 with less than 25 years of membership service are not eligible for early service retirement.**
53	0.628	
52	0.592	
51	0.556	
50	0.520	

TABLE III. PAYMENT OPTION 2 & 3 FACTORS

Multiply the Option 1 benefit payment
by the applicable factor for Options 2 and 3.

	AGE DIFFERENCE IN YEARS	FACTORS OPTION 2	OPTION 3
Member Older Than Beneficiary	15	0.8167	0.8991
	14	0.8202	0.9012
	13	0.8239	0.9034
	12	0.8277	0.9057
	11	0.8316	0.9081
	10	0.8357	0.9105
	9	0.8398	0.9129
	8	0.8440	0.9154
	7	0.8484	0.9180
	6	0.8528	0.9206
	5	0.8573	0.9232
	4	0.8619	0.9258
	3	0.8666	0.9285
	2	0.8713	0.9312
	1	0.8761	0.9340
	0	0.8810	0.9367
Member Younger Than Beneficiary	1	0.8858	0.9395
	2	0.8907	0.9422
	3	0.8957	0.9450
	4	0.9006	0.9477
	5	0.9055	0.9504
	6	0.9103	0.9530
	7	0.9151	0.9557
	8	0.9198	0.9582
	9	0.9244	0.9607
	10	0.9289	0.9631
	11	0.9333	0.9655
	12	0.9375	0.9677
	13	0.9416	0.9699
	14	0.9455	0.9720
	15	0.9492	0.9739

GLOSSARY OF TERMS

ACCUMULATED CONTRIBUTIONS - the total contributions made by a member plus accrued interest.
ACTIVE MEMBER - a member currently employed in a PERS covered position and making the required contributions to the PERS.
ADDITIONAL CONTRIBUTIONS - voluntary contributions made by a member to purchase optional service credit under a service purchase contract. Additional contributions are not tax-deferred.
BENEFIT - a monthly payment to a member for life, or to a contingent annuitant, or to the designated beneficiary of a vested member.
COMPENSATION - all remuneration paid to a member out of funds controlled by an employer. Compensation does not include payments or contributions to a qualified pension plan made in lieu of wages for an individual due to a collective bargaining agreement.
CONTINGENT ANNUITANT - the person designated by the member to receive a continuing benefit after the death of the retired member.
CONTRACTING EMPLOYER - a political subdivision that has a contract for PERS coverage for its employees.
CREDITED SERVICE or SERVICE CREDIT - proportional periods of time during which required contributions are made to the PERS. Service credits are used to calculate benefits payable by the PERS. (160 or more hours in any month equate to 1 month service credit.)
DESIGNATED BENEFICIARY - the person designated by a member to receive any survivorship benefits or lump-sum payments upon the death of the member.
DISABILITY - total physical or mental incapacity of a member to perform essential functions associated with the member's employment. The disability must be incurred while an active member and must be of permanent or extended and uncertain duration.
EARNINGS - income received periodically for employment.
EMPLOYEE - a person employed by an employer in any capacity and whose salary is paid by the employer.
EMPLOYER - the state of Montana, its university system (including any of the colleges, schools, components, or units of the university system) and any political subdivision which has contracted for PERS coverage for its employees.
FAMILY LAW ORDER (FLO) - Legal assignments of all or part of the retirement benefits or lump-sum payments otherwise payable to a system participant by order of a Montana court.
FINAL AVERAGE SALARY - (FAS) a member's highest average monthly compensation during any 36 consecutive months of membership service. Lump-sum payments for severance pay, sick leave, and annual leave paid upon termination of employment may be used to calculate the FAS only to the extent the lump-sum payments are used to replace, on a month-for-month basis, the regular compensation for a month (or months) included

in the calculation of the FAS. A lump-sum payment cannot be added to a single month's compensation.

FISCAL YEAR - the 12-month period commencing with July 1 and ending the following June 30.

INACTIVE MEMBER - a member who has terminated PERS covered employment and whose accumulated contributions remain on deposit with the PERS.

IRA - individual retirement account.

INTEREST - amounts credited to a member's account at rates set by the Board which are payable and taxable only at the time a member's contributions are refunded.

LUMP-SUM PAYMENTS - amounts (including interest) which are payable in lieu of benefits.

MEMBER - any person with accumulated contributions on deposit and service credited with the PERS, including persons receiving a service or disability retirement benefit.

MEMBERSHIP SERVICE or YEARS OF SERVICE - the calendar periods of service used to determine vesting and eligibility for retirement or other benefits.

PART-TIME EMPLOYMENT - any calendar month during which the member is compensated for less than 160 hours.

PARTICIPANT - a member or a named beneficiary, survivor, or contingent annuitant who is receiving (or may receive) a benefit or payment from PERS.

REFUND - withdrawal of a member's accumulated contributions in lieu of any benefits otherwise payable by PERS.

REGULAR CONTRIBUTIONS - tax-deferred contributions required of active members as a percentage of their monthly compensation.

REGULAR INTEREST - amounts charged in addition to lump-sum costs for purchasing optional service credit when members elect to make such payments on an installment basis.

RETIREMENT BENEFIT - the monthly payment to a member, for life, following service or disability retirement.

RETIREMENT or RETIRED - the status of a member who has terminated from service and is currently receiving a benefit.

SURVIVORSHIP BENEFIT - payments for life to the designated beneficiary of a vested member who died while an active member.

VESTED MEMBER or VESTED - the status of a member who has accumulated 5 years of membership service.

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